

House passes Wall Street Reform and Consumer Protection Act

Written by Mike Honda
Monday, 14 December 2009 11:07

Last week, the House passed H.R.4173, the Wall Street Reform and Consumer Protection Act. H.R. 4173 is a comprehensive package of measures that will modernize financial regulations and address the numerous causes of last year's meltdown of the financial system. The passage of this bill is critical for our nation, as I believe it is important to restore common sense to Wall Street. I receive hundreds of messages from families and small businesses that have been mired in unsustainable debt through the result of predatory practices by banks, mortgage lenders, and other financial firms.

The bill includes tougher enforcement and oversight of existing protections and gives the Securities and Exchange Commission new enforcement powers, including requiring hedge funds and private equity funds to register. It enhances oversight and transparency of the credit rating agencies whose seal of approval allowed many of the excessively risky practices that led to financial collapse. It addresses egregious executive compensation, allowing shareholders to have a 'say on pay,' requiring independent directors on compensation committees, and limiting the risky pay practices of bank executives that jeopardized banks' soundness.

Other components of the legislation include:

- **Consumer Protections:** Creates the Consumer Financial Protection Agency (CFPA), a new, independent federal agency solely devoted to protecting Americans from unfair and abusive financial products and services.

- **Ends Taxpayer-funded Bailouts and Prevents the Rise of Institutions that are "Too Big to Fail":** Establishes an orderly process for dismantling large, failing financial institutions like AIG or Lehman Brothers **in a way that ends bailouts, protects taxpayers, and prevents contagion to the rest of the financial system.** Creates a Systemic Dissolution Fund that can be used to help wind down failing financial institutions, but not to preserve them. The Fund will be pre-funded by assessments on

House passes Wall Street Reform and Consumer Protection Act

Written by Mike Honda

Monday, 14 December 2009 11:07

financial companies with more than \$50 billion in assets and by hedge funds with more than \$10 billion in assets, thus ending the need for taxpayer-funded bailouts. Again, with enactment of this legislation, there are no more taxpayer-funded bailouts for failing institutions. If financial assistance is necessary for orderly dissolution, industry will pay for it.

- **Financial Stability Council:** Creates an inter-agency oversight council that will identify and regulate financial firms that are so large, interconnected, or risky that their collapse would put the entire financial system at risk. These systemically risky firms will be subject to heightened oversight, standards, and regulation.

- **Investor Protections:** Strengthens the SEC's powers so that it can better protect investors and regulate the nation's securities markets. It responds to the failures to detect the Madoff and Stanford Financial frauds by ordering a study of the entire securities industry that will identify needed reforms and force the SEC and other entities to further improve investor protection.

- **Regulation of Derivatives:** Regulates, for the first time ever, the over-the-counter (OTC) derivatives marketplace. Under the bill, all standardized swap transactions between dealers and "major swap participants" would have to be cleared and traded on an exchange or electronic platform. The bill defines a major swap participant as anyone that maintains a substantial net position in swaps, exclusive of hedging for commercial risk, or whose positions create such significant exposure to others that it requires monitoring.

- **Mortgage Reform and Anti-Predatory Lending:** Would incorporate the tough mortgage reform and anti-predatory lending bill the House passed earlier this year. The legislation outlaws many of the egregious industry practices that marked the subprime lending boom, and it would ensure that mortgage lenders make loans that benefit the consumer. It would establish a simple standard for all home loans: institutions must ensure that borrowers can repay the loans they are sold.

- **Office of Insurance:** Creates a Federal Insurance Office that will monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis and undermine the entire financial system.

This type of Wall Street reform is the next important step to stabilizing and growing our economy. As the news about our economic rebound continues to flow in, it is important that we put in place common-sense rules to ensure big banks and Wall Street can't jeopardize this recovery and hurt hard-working families or small businesses again through risky behavior. Wall Street itself may be bouncing back, but we know from experience they're not going to police themselves.